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Memo to the President on Impact of GOP Tax Cuts on the Budget Surplus

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PRESIDENT CLINTON'S RADIO ADDRESS TO THE NATION: CONGRESS'S COSTLY TAX CUTS WILL DRAIN THE SURPLUS AND PROVIDE FEW BENEFITS FOR WORKING FAMILIES Saturday, July 22, 2000

Today, in his weekly radio address, President Clinton will say that the tax cuts passed by the Republican Congress would threaten our fiscal discipline, drain the surplus, leave no money for key priorities like Medicare prescription drugs, and provide little benefit to most taxpayers. He will contrast the Republican plan with his approach, which maintains the same fiscal discipline that has contributed to our current prosperity, prepares for the future by strengthening Social Security and Medicare, invests in key priorities like a Medicare prescription drug benefit, provides targeted tax relief for American families, and pays down the debt by 2012.

The President will highlight a new analysis by the Office of Management and Budget (OMB) showing that the total cost of the tax cuts passed by the 106th Congress, piece by piece and without a coherent strategy, could drain the entire on-budget (non-Social Security and non-Medicare) surplus from 2001-10. The President will also highlight an analysis by the Department of the Treasury showing that middle-class families get twice as much tax relief from his more fiscally responsible approach than from the major tax cuts passed by the House Ways and Means Committee.

HIGHLIGHTS OF ADMINISTRATION ANALYSES

- The tax cuts passed by Congress this year would cost more than \$700 billion over 10 years; with interest they would drain over \$900 billion from the surplus.
- If the Republican Congress is still intent, either this year or next, on enacting tax cuts passed last year, including across-the-board reductions, the total cost of its tax cuts would be more than \$1.4 trillion; with interest they would drain \$1.8 trillion from the surplus. This would use the entire on-budget surplus, even according to the more optimistic projections by the Congressional Budget Office.
- The major tax cuts passed by House Ways and Means would provide as much to the top 1 percent of Americans as to the bottom 80 percent of Americans.
- Under the President's fiscally responsible plan, the tax cuts for middle-class families are substantially larger than under the Republican plan. The middle fifth of the income distribution gets an average tax cut of \$371 annually from the major provisions of the President's \$263 billion package. This is twice the \$185 annually they would get from the major tax cuts passed by the House Ways and Means Committee. (This analysis is based on the marriage penalty bill originally passed by the House and does not include the Social Security benefit taxation repeal just passed by House Ways and Means.)

Tax Cuts Passed by the Republican Congress This Year Would Cost More Than \$700 Billion; With Interest Costs They Drain More than \$900 Billion From the Surplus

Instead of passing one large tax bill, this year the Republican Congress is passing its tax cuts piece by piece. But the economic and budgetary effect is the same. According to the new analysis by OMB, these tax cuts now cost more than \$700 billion over 10 years. Accounting for additional debt service, the total drain on the surplus is over \$900 billion:

TAX CUTS PASSED BY CONGRESS THIS YEAR (\$billions, 2001-10)

	<u>Cost</u>	<u>Passed By</u>
Marriage Penalty	\$293 (1)	House and Senate
Estate Tax Repeal	\$105	House and Senate
Small Business / Minimum Wage	\$123	House and Senate (2)
Social Security Benefits Tax Reduction	\$116	House Ways & Means and Senate (3)
Communications Excise Tax Repeal	\$51	House and Senate (3)
Pension and IRA Limit Increases	\$52	House
Affordable Education	\$21	House Ways & Means and Senate
Patients Bill of Rights (4)	\$69	House and Senate
Taxpayer Bill of Rights	\$7	House
Trade and Development	\$4	Enacted
Total Cost (eliminating duplication)	\$712	
Added Interest	\$201	
Total Drain on Surplus	\$913	

Source: Cost estimates of individual bills are from Congress? Joint Committee on Taxation and total cost is based on an analysis by the Office of Management and Budget. The total cost excludes duplicate provisions but does not take into account interactions of the different provisions.

(1) The passed bill sunsets after 2004 for procedural reasons. This estimate assumes the tax cut is permanent.

(2) Senate version is \$103 billion.

(3) Passed as an amendment to estate tax repeal in the Senate and then stripped from the bill before final passage.

(4) Passed in 1999 and currently in Conference. Senate version is \$39 billion.

The Total Tax Cuts Passed By the 106th Congress Would Use \$1.8 Trillion of the Surplus - At Least the Entire On-budget Surplus Over 10 Years

The Republicans have passed many of the pieces of the \$792 billion tax bill the President vetoed last year; and they describe the bills they have passed this year as just a "down payment" on their ultimate goals. But they still have not passed the most costly elements, including across-the-board rate reductions. If the Republican Congress is still intent - this year or next - on these tax cuts, the total drain on the surplus from 2001-10 would be \$1.8 trillion. This substantially exceeds OMB's projection of a \$1.47 trillion on-budget surplus from 2001-10 and uses up the entire \$1.81 trillion on-budget surplus in the Congressional Budget Office's more optimistic projections. This would risk our fiscal discipline and leave nothing for other priorities like a voluntary Medicare prescription drug benefit, paying down the debt by 2012, providing targeted tax cuts to help working American families with the costs of college, long-term care, child care, and raising larger families, and strengthening Social Security and Medicare. (These on-budget surplus estimates exclude Medicare surpluses, something that was proposed by the Vice President, endorsed by the President, and agreed to in principle by the Republican Congress.)

TOTAL TAX CUTS PASSED BY THE 106TH CONGRESS (\$billions, 2001-10)

	<u>Cost</u>	<u>Passed By</u>
Tax Cuts Passed This Year	\$712	
<u>Tax Cuts Passed Last Year</u>		
Reduction in Tax Rates	\$490	House and Senate (1)
Individual Alternative Minimum Tax	\$115 (2)	Conference Agreement
Corporate Alternative Minimum Tax	\$14	House and Senate (1)
Capital Gains for Individuals	\$57	House and Senate (1)
Capital Gains for Corporations	\$8	House and Senate (1)
Interest Deduction on Worldwide Basis	\$29	House and Senate (1)
Extend R&E Tax Credit	\$18 (3)	House and Senate

Extend exemption for Subpart F AFI	\$6	Conference Agreement
Total Cost (eliminating duplication)	\$1,447	
Added Interest	\$349	
Total Drain on Surplus	\$1,796	

Source: Cost estimates of individual bills are from Congress's Joint Committee on Taxation and total cost is based on an analysis by the Office of Management and Budget. The total cost excludes duplicate provisions but does not take into account interactions of the different provisions.

(1) Cost estimate is from H.R. 2488 as passed by the House.

(2) Excludes the cost of the provisions passed as part of this year's marriage penalty bill.

(3) Cost estimate is from H.R. 2488 as passed by the Senate excluding the cost of the 5-year extension enacted in 1999. The Senate passed this again this year as an amendment to estate tax repeal but then stripped it before final passage.

The Major Tax Cuts Passed By the House This Year Would Provide As Much to the Top 1 Percent of Taxpayers as the Bottom 80 Percent

According to an analysis by the Department of the Treasury of the major provisions passed by the House this year: estate tax repeal, marriage penalty, limit increases for pensions and IRAs, and other tax cuts. (This analysis does not include the Conference-agreement marriage penalty just passed by the House and the Social Security benefit taxation just passed by the House Ways and Means):

- The top 1 percent get 27.5 percent of the benefits. That is a total of \$18 billion annually, or an average of \$16,000 per family.
- The bottom 80 percent get 23.7 percent of the benefits. That is a total of \$15 billion annually, or an average of only \$167 per family. Even this tax cut could be offset if costly tax cuts led to higher interest rates and higher costs on everything from home mortgages to student loans.

President Clinton's Targeted Tax Cuts Would Provide More For Most Families At a Much Smaller Total Cost

President Clinton has proposed tax cuts totaling \$263 billion over 10 years. This fiscally responsible tax package would deliver more benefits to more families than the much larger Republican tax package:

- The major tax cuts proposed by President would provide an average tax break of \$371 annually for a person in the middle quintile of the income distribution - that is twice the \$185 annual tax break they would get from the much costlier tax cuts passed by House Ways and Means.
- 66.4 percent of the benefits of the tax cuts proposed by the President go to the middle 60 percent of Americans; in contrast 22.9 percent of benefits of the tax cuts passed by House Ways and Means go to this group.
- President Clinton's tax cut proposals build on a successful strategy that has resulted in the lowest total Federal tax rates on typical families in over two decades. The tax cuts signed into law by the President in 1993 and 1997 - for example, the expanded Earned Income Tax Credit, the \$500 child tax credit, the \$1,500 HOPE Scholarship Tax Credit, and expanded IRAs - have reduced taxes for American families. The total Federal tax rate for the median-income family of four has dropped from 24.5 percent in 1992 to 22.8 percent in 1999 - that's the lowest tax rate since 1978. For families at one-half the median income, the effective Federal tax rate has been slashed from 19.8 percent in 1992 to 14.1 percent in 1999 - that's the lowest tax rate since 1968.

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